Hearing Date and Time: May 9, 2006 at 10:00 a.m.
Objection Deadline: April 21, 2006 at 4:00 p.m.

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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In re	:	Chapter 11
	:	
DELPHI CORPORATION, et al.,	:	Case No. 05-44481 (RDD)
	:	
Debtors.	:	(Jointly Administered)
	:	
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DECLARATION OF JOHN D. SHEEHAN
IN SUPPORT OF DELPHI'S MOTION FOR AUTHORITY TO REJECT
COLLECTIVE BARGAINING AGREEMENTS UNDER 11 U.S.C. § 1113(c) AND
MODIFY RETIREE WELFARE BENEFITS UNDER 11 U.S.C. § 1114(g)

I, John D. Sheehan, declare and state as follows:

1. I am employed by Delphi Corporation ("Delphi") as Vice President, Chief Restructuring Officer, Chief Accounting Officer and Controller. I joined Delphi in July 2002 as Chief Accounting Officer and Controller and served as Acting Chief Financial Officer from March 2005 to October 2005. Prior to joining Delphi, I worked for KPMG LLP, most recently as an audit partner working with automotive clients.

2. In my current position with Delphi, I am responsible for leading Delphi's restructuring activities, and I continue to currently retain, my duties as Chief Accounting Officer and Controller.

3. I submit this declaration in support of Delphi's Motion For Authority to Reject Collective Bargaining Agreements Under 11 U.S.C. § 1113(c) And Modify Retiree Welfare Benefits Under 11 U.S.C. § 1114(g) (the "Motion"). Any capitalized terms not expressly defined herein are intended to have the meanings ascribed to them in the Motion or accompanying Memorandum Of Law, and references to Delphi herein include the Debtors, as appropriate. Except as otherwise indicated, all facts set forth in this declaration are based upon my personal knowledge, my review of relevant documents, my opinion, my experience with and my knowledge of Delphi's financial condition, or are based upon knowledge obtained from employees of Delphi reporting to me in the course of their duties. If I were called on to testify, I could and would testify to the facts set forth herein.

I. Overview Of Delphi's Business Following Its Spin-Off From GM

A. Delphi's Financial Reporting

4. The 2005 financial data cited in this declaration and in the Memorandum Of Law are Delphi's preliminary results, and are subject to adjustment and audit in the ordinary course. Final results will be announced later this year. Delphi does not believe, however, that any potential changes will be material to the issues presented in this declaration or in the Memorandum Of Law.

5. In June 2005, Delphi restated its financial results for 1999 through the second quarter of 2004. The financial data cited in this declaration and the Memorandum Of Law reflect the restated results. Where financial results are stated for Delphi as a whole, unless otherwise stated, the figures are calculated according to generally accepted accounting principals ("GAAP") and income figures reflect net profit or loss. Where financial results or projections are stated for a portion of Delphi's operations, such as regions, divisions, or facilities, those results are operating income based on Delphi's internal reporting mechanisms, and are not audited.

6. Delphi does not report divisional financial results for its U.S. operations. The results for North America (which include Canada and Mexico) can be used as a proxy for the U.S. results, particularly for those divisions that do not have large operations in Mexico or Canada, although this actually understates the losses from Delphi's U.S. operations. For example, Delphi's 2005 operating loss in North America was $1.7 billion compared to a $2.2 billion operating loss in the U.S. operations alone (both figures exclude $0.5 billion of impairments related to Delphi's U.S. operations).

B. Delphi's Operations And Customers

7. Delphi is one of the world's largest suppliers of vehicle electronics and transportation components. Delphi and its subsidiaries operate in 34 countries, with some 184,000 employees, 163 manufacturing sites, 39 joint ventures, and 32 technical centers. Delphi's international operations are conducted through foreign subsidiaries and affiliates in Mexico, South America, Europe, the Middle East, Asia, and Australia. Within the U.S., Delphi has approximately 41 manufacturing sites (including idled and non-union facilities) in 15 states, 10 technical centers, and its world headquarters in Troy, Michigan.

8. Delphi designs and manufactures products for every major original equipment manufacturer – known as "OEMs," "assemblers," or "automakers" – in the world. Delphi's products represent one of the widest ranges of auto parts manufactured by any independent parts supplier, ranging from complex electronic systems to simple commodity components.

9. Delphi's customer base has changed substantially since Delphi became an independent company on January 1, 1999. At the time of the Spin-Off, approximately 78 percent of Delphi's sales were to its former parent, GM – principally to GM's North American operations – and until the first quarter of 2005, Delphi's sales to GM still constituted more than half of its revenue. By the end of 2005, however, Delphi's total revenue from GM had declined from $22.3 billion in 1999 to approximately $12.8 billion, while Delphi's non-GM revenue had increased from $6.9 billion in 1999 to approximately $14.1 billion.

10. Delphi's second largest customer after GM, Ford, represented five percent of Delphi's sales in 2005. Delphi's other non-GM revenue includes sales to other OEMs, including, but not limited to, Chrysler, Renault/Nissan Motor Company, Volkswagen Group, and Toyota

Motor Corp.; sales of service replacement auto parts through the independent "aftermarket;" sales of consumer products such as non-automotive thermal management systems, mobile video, satellite radio, and other audio entertainment systems; medical products; and aerospace products.

11. The chart set forth in Exhibit A reflects the proportion of Delphi's revenue attributable to GM's North American operations, GM's international operations, and other large OEM customers in 1999 and 2005. This illustrates the migration of Delphi's business to OEMs other than GM and to international customers since 1999.

C. Delphi's Organizational Structure

12. Delphi is organized into three sectors – (a) Electrical, Electronics, and Safety; (b) Dynamics, Propulsion, Thermal, and Interior; and (c) Automotive Holdings Group. Each sector has one or more operating divisions as described in more detail below. Within each division, Delphi has one or more "business lines," which, in turn, have different "product lines." For the purposes of simplicity, however, I will refer to both business lines and product lines as "product lines."

1. Electrical, Electronics, And Safety ("EE&S")

13. The EE&S sector consists of Delphi's most profitable and fastest growing businesses and products and is the only sector that has been consistently profitable, with revenue of $13.4 billion and operating income of $133 million in 2005. EE&S's relative success stems primarily from the fact that electrical, electronic, audio, and communications components are becoming an increasingly large proportion of overall vehicle content. EE&S has also expanded more than any other sector into consumer products, a high growth area that includes satellite radios and mobile video technology. Products developed, produced, and sold in the EE&S sector

include wiring systems and electrical architectures, automotive audio and communication systems, automotive powertrain electronics, automotive safety systems, and consumer electronics. EE&S has three divisions – Delphi Electronics and Safety, Delphi Packard Electric Systems, and Delphi Product and Service Solutions.

14. Delphi Electronics And Safety ("E&S"). The E&S division designs, manufactures, and sells vehicle audio and entertainment systems, body electronics, chassis electronics, powertrain controllers, vehicle safety (airbag) systems, and a variety of additional products. E&S currently operates two manufacturing sites in the U.S. – Kokomo, Indiana and Milwaukee, Wisconsin. In 2005, the E&S division had revenue of $5.8 billion, with operating income of $222 million, including a $130 million profit from its North American operations. Approximately 39 percent of E&S's 2005 revenue was generated by sales to GM. Under Delphi's "Steady State Scenario" for 2006 – that is, Delphi's financial projections assuming no change in its labor agreements and retirement obligations – E&S would have operating income of $104 million, including operating income of $56 million in its North American operations.

15. Delphi Packard Electrical Systems ("Packard"). The Packard division designs, manufactures, and sells wiring systems. The division assembles complete wiring systems for the distribution of power and signals through the vehicle, and produces many of the terminals, connectors, and related components used to connect the vehicle's wiring to the various electronic assemblies in the vehicle. Packard also produces and sells a variety of electric and electronic devices such as sensors, relays, and bussed electrical centers which, collectively, provide elements of a comprehensive electric architecture for an automobile or truck. Packard currently operates three manufacturing sites in the U.S. – Brookhaven, Mississippi; Clinton, Mississippi;

and Warren, Ohio. The Packard division had revenue of $5.9 billion and an operating loss of $145 million in 2005 (including a $136 million loss in its North American operations). Approximately 34 percent of its sales were to GM. Under Delphi's Steady State Scenario, Packard would have an operating loss of $130 million in 2006, including a $265 million operating loss attributable to North American operations.

16. Delphi Product And Service Solutions ("DPSS"). The DPSS division sells auto-service parts to the parts and service operations of the vehicle OEMs, as well as auto-service parts and service diagnostic tools outside the OEM channel to the independent aftermarket. DPSS also sells a range of electronics-based products through its consumer electronics channels. These consumer electronic products are generally based around Delphi's market leading entry into satellite digital audio receivers and include products for vehicle, mobile, and home usage. DPSS does not manage any Delphi manufacturing sites in the U.S. Some of the parts it sells through the OEM and aftermarket service markets are produced by other Delphi divisions, and others are manufactured for DPSS by outside suppliers. The DPSS division had $2.1 billion in revenue, with operating income of $56 million, in 2005 (including a $48 million profit in its North American operations). Sales to GM of parts for sale through its dealer network constitute approximately 36 percent of DPSS' 2005 revenue. Under Delphi's Steady State Scenario, DPSS would have operating income of $57 million in 2006, of which $32 million would be attributable to North American operations.

17. In addition to the manufacturing sites identified above, EE&S has one manufacturing site in Foley, Alabama that has been idled but still has employees in a JOBS Bank, and three manufacturing sites in which the employees are covered by collective bargaining

agreements that are not at issue in this Motion – Irvine, California; Landrum, South Carolina; and Mountain View, California.

2. Dynamics, Propulsion, Thermal, And Interior ("DPT&I")

18. The DPT&I sector of Delphi's operations designs, manufactures, and sells engine management systems, chassis products, driveline products, steering products, thermal management systems, and interior systems. DPT&I has three divisions – Delphi Energy and Chassis, Delphi Steering, and Delphi Thermal & Interior. The DPT&I sector had $12.6 billion in revenue in 2005, but an operating loss of approximately $1.3 billion for the year (including a $856 million loss in its North American operations).

19. Delphi Energy And Chassis ("E&C"). The E&C division designs, manufactures, and sells a wide variety of vehicle powertrain- and chassis-related products. Powertrain-related products include both gasoline and diesel engine management systems, emission management systems, and related component products, such as sensors and actuators. Chassis-related products include braking products, suspension products, and wheel bearings. It currently operates seven manufacturing sites in the U.S. – Coopersville, Michigan; Grand Rapids, Michigan; Milwaukee, Wisconsin; Rochester, New York; Saginaw, Michigan; Sandusky, Ohio; and Wichita Falls, Texas. It also operates one U.S. manufacturing site in Tulsa, Oklahoma in which the employees are covered by a collective bargaining agreement not subject to this Motion and one non-union manufacturing site, Spring Hill, Tennessee, that operates with leased personnel. In 2005, the E&C division had $6.8 billion in revenue, and an operating loss of $809 million, including a $428.9 million loss from its North American operations. GM accounted for approximately 41 percent of its 2005 revenue. Under Delphi's Steady State Scenario, described

below, E&C would have an operating loss of $529 million in 2006, including a $489 million loss in its North American operations.

20. Delphi Steering. The Delphi Steering division designs, manufactures, and sells steering and driveline products such as steering columns, power steering pumps, electric power steering systems, steering gears, and halfshafts. It has one dedicated manufacturing site in the U.S. in Saginaw, Michigan. There is also one site operated by the AHG division, Athens, Alabama, that manufactures both steering and driveline products designed and sold by the Delphi Steering division. In 2005, Delphi Steering had revenues of $2.3 billion, and an operating loss of $240 million, including a $173 million loss from its North American operations. GM accounted for approximately 59 percent of its 2005 revenue. Under Delphi's Steady State Scenario, Delphi Steering would have operating losses of $317 million in 2006, including $300 million in its North American operations.

21. Delphi Thermal & Interior ("T&I"). The T&I division encompasses two fundamentally different businesses. The "thermal" portion of the business designs, manufactures, and sells automotive thermal systems and components, including climate control and powertrain cooling products. The thermal business also has an emerging non-automotive thermal systems business which provides thermal management products for the computer, commercial, and residential markets. The "interior" portion of the business designs, manufactures, and sells vehicle interior assemblies such as instrument panels, cockpit modules, door modules, and latches. T&I currently operates six manufacturing sites in the U.S. – Adrian, Michigan; Columbus, Ohio; Cottondale, Alabama; Gadsden, Alabama; Lockport, New York; and Vandalia, Ohio. T&I also operates two manufacturing sites – North Kansas City, Missouri and

Orion, Michigan – that operate with leased personnel. In 2005, the T&I division had revenue of $3.5 billion and an operating loss of $247 million, including a $255 million loss in its North American operations. GM accounted for approximately 66 percent of its 2005 revenue. Under Delphi's Steady State Scenario, T&I would have an operating loss of $354 million in 2006, including a $371 million loss in its North American operations.

3. Automotive Holdings Group ("AHG")

22. The Automotive Holdings Group is a collection of U.S. manufacturing sites that produce a variety of products, including spark plugs, air filters, fuel modules, air meters, instrument clusters, generators, ignition, brakes, and shock absorbers. AHG also produces steering gears, halfshafts, and power steering hoses. AHG has been underperforming financially. It was formed to allow for targeted management focus on Delphi's long-standing goals of "fixing, selling, or exiting" unprofitable operations. Many of the products manufactured by AHG are commodity products that can be manufactured less expensively at more competitive U.S. sites or in other countries with much lower labor costs. AHG currently operates ten manufacturing sites in the U.S. – Anderson, Indiana; Athens, Alabama; Fitzgerald, Georgia; Flint, Michigan; Home Avenue (Dayton), Ohio; Kettering, Ohio; Laurel, Mississippi; Moraine, Ohio; New Brunswick, New Jersey; and Needmore (Dayton), Ohio. It also has four idled sites that have employees in maintenance positions or in a JOBS Bank – Anaheim, California; Tuscaloosa, Alabama; Flint West (Flint), Michigan; and Olathe, Kansas. AHG had revenue of $2.5 billion in 2005. The businesses that comprise AHG have not made a profit since 1999, losing operating income of $1.2 billion in 2005. GM accounted for 55 percent of AHG's revenue in 2005. Under Delphi's

Steady State Scenario, AHG would lose an estimated $1.3 billion in 2006. All of AHG's operations are in North America.

D. Delphi's U.S. Manufacturing Sites

23. Of Delphi's approximately 41 manufacturing sites in the U.S., there are only 29 that are currently active with collective bargaining agreements subject to this Motion. As noted above, Delphi also has several idled or closed facilities that are subject to the Motion because they employ individuals who are either on leave or in a JOBS Bank. The following is an overview of each active manufacturing site subject to the Motion.

Manufacturing Site	Sector/Division	Primary Product(s)
Adrian, Michigan	DPT&I/T&I	instrument panels, HVAC assemblies
Anderson, Indiana	AHG	remanufactured service generators, ignition products
Athens, Alabama	AHG	steering products, such as steering gears, power steering hoses, intermediate shafts, and driveline products, such as halfshafts
Brookhaven, Mississippi	EE&S/Packard	wiring systems, connection systems
Clinton, Mississippi	EE&S/Packard	wiring systems, connection systems
Columbus, Ohio	DPT&I/T&I	power products, latches
Coopersville, Michigan	DPT&I/E&C	fuel injectors
Cottondale, Alabama	DPT&I/T&I	cockpit assemblies
Fitzgerald, Georgia	AHG	batteries[1]
Flint, Michigan	AHG	air filters, fuel modules, air meters, air induction systems, instrument clusters
Gadsden, Alabama	DPT&I/T&I	instrument panels and consoles
Grand Rapids, Michigan	DPT&I/E&C	valve train products
Home Avenue (Dayton), Ohio	AHG	engine mounts, brake products
Kettering, Ohio	AHG	suspension products, fan clutches
Kokomo, Indiana	EE&S/T&I, E&S	powertrain controllers, airmeter electronics, ignition electronics, audio head units, audio circuit boards, audio peripherals, HVAC

1 Fitzgerald manufactures batteries for Johnson Controls, Inc. ("JCI"), which recently purchased Delphi's battery business.

		controllers, sensors, power modules, integrated circuits, crash sensing controllers, related electronic products
Laurel, Mississippi	AHG	plastic injection and stamped steel subassemblies for batteries, actuators, and ignition products
Lockport, New York	DPT&I/T&I	HVAC climate control systems, powertrain cooling systems
Milwaukee, Wisconsin (E&C)	DPT&I/E&C	catalytic converters
Milwaukee, Wisconsin (E&S)	EE&S/E&S	powertrain controllers, body and security products, throttle control mechanisms
Moraine, Ohio	AHG	air conditioning compressors
New Brunswick, New Jersey	AHG	batteries[2]
Needmore (Dayton), Ohio	AHG	brake products
Rochester, New York	DPT&I/E&C	engine management systems and related products
Saginaw, Michigan (E&C)	DPT&I/E&C	brake and chassis corner modules
Saginaw, Michigan (Steering)	DPT&I/Steering	steering products, such as steering gears, power steering pumps, steering columns, intermediate shafts, and driveline products, such as halfshafts
Sandusky, Ohio	DPT&I/E&C	wheel bearings, roller clutch bearings
Vandalia, Ohio	DPT&I/T&I	power products, door modules, instrument panels, airbags, steering wheels, HVAC climate control assemblies
Warren, Ohio	EE&S/Packard	wiring systems, connection systems, mechatronics
Wichita Falls, Texas	DPT&I/E&C	conical oxygen sensors

E. Delphi's Historical Financial Performance

24. In the first two years following the 1999 Spin-Off of Delphi from GM, Delphi performed well financially, earning net income of $1.0 billion in 1999 and $817 million in 2000. In 2001, however, as the entire industry suffered the after-effects of the terrorist attacks of September 11, Delphi's financial performance began steadily to deteriorate. Delphi has not had a

[2] New Brunswick also manufactures batteries for JCI. It is anticipated that JCI will purchase this manufacturing site in the near future.

net profit since 2003, and its losses have been substantial, including a net loss of $2.8 billion in 2005. Delphi's revenue likewise declined during this period, from $29.2 billion in 1999 to $28.6 billion in 2004 and $26.9 billion in 2005. Exhibit B illustrates Delphi's consolidated sales and net income and loss for 1999 through 2005.

25. While Delphi reports its financial results on a consolidated basis, Delphi's non-U.S. businesses – which generally are separate legal entities under the direction of local management – are generally competitive with their peers, generating an estimated operating income of $800 million in 2003, $1.1 billion in 2004, and $700 million in 2005. As such, none of Delphi's foreign subsidiaries is a debtor in these chapter 11 cases and Delphi does not plan to commence any reorganization, bankruptcy, or insolvency cases outside the United States.

26. Delphi's losses stem instead from its U.S. operations, the only operations subject to the collective bargaining agreements in the Motion. Delphi's U.S. manufacturing sites, collectively, had operating losses of $700 million in 2003, $1.6 billion in 2004, and an operating loss of $2.2 billion in 2005.

27. Exhibit C shows Delphi's international and U.S. sales and operating income and loss for 2000 through 2005 and illustrates that Delphi's revenue from its U.S. operations has steadily decreased since 1999, while the revenue from Delphi's international operations has steadily increased.

28. Delphi's internal financial accounting systems report financial results by sector and division, and by Delphi's four geographic regions (Europe, Asia, North America, and South America). Delphi's international and U.S. operating income figures discussed herein are based on Delphi management studies performed periodically to assess U.S. and non-U.S. profitability.

The 2005 data was calculated in August using best available data at that time. Accordingly, the 2005 projected data does not include approximately $1.0 billion of actual asset impairment charges (split roughly evenly between U.S. and non-U.S. operations).

29. When reviewed as a percentage of revenue, the difference between Delphi's international and U.S. operations is even more extreme. Delphi's projected operating income of $700 million from its non-U.S. operations in 2005 represented a profit of 4.6 percent on $15.3 billion of revenue, whereas Delphi's 2005 operating loss of $2.2 billion in the U.S. represented an approximately 19.1 percent loss on $11.5 billion in U.S. revenue. Exhibit D compares Delphi's U.S. and international operating income as a percentage of revenue for 2000 through 2005.

30. The following chart shows the individual performance, including the effect of impairment charges, of the active U.S. manufacturing sites that have employees covered under the collective bargaining agreements subject to the Motion.

Manufacturing Site	2005 Operating Income (OI) (in Millions $)	2005 Total Revenues (in Millions $)	2005 OI Margin
Adrian, Michigan	(4.6)	152.8	(3) %
Anderson, Indiana (Generators)	(51.7)	61.3	(84.3) %
Anderson, Indiana (Ignitions)	(69.5)	124.4	(55.8) %
Athens, Alabama	(135.5)	426.4	(31.8) %
Brookhaven, Mississippi	31.0	184	16.8 %
Clinton, Mississippi	(63)	241	(26.1) %
Columbus, Ohio	(42.8)	250.6	(17.1) %
Coopersville, Michigan	(29.1)	213.8	(13.6) %
Cottondale, Alabama	(12.4)	171.5	(7.2) %
Fitzgerald, Georgia	(44.3)	99.9	(44.3) %
Flint, Michigan (Flint East, E&C)	(194.3)	445.8	(43.6) %

Gadsden, Alabama	(56.1)	33.6	(167.0) %
Grand Rapids, Michigan	(21.2)	177.2	(11.9) %
Home Avenue (Dayton), Ohio	(105.1)	216.1	(48.6) %
Kettering, Ohio	(88.7)	276.4	(32.1) %
Kokomo, Indiana	(51.2)	848.4	(6.0) %
Laurel, Mississippi	(8.3)	13.2	(63.0) %
Lockport, New York	(127.1)	952.9	(13.3) %
Milwaukee, Wisconsin (E&C)	(5.8)	548.8	(1.1) %
Milwaukee, Wisconsin (E&S)	(3.6)	418.1	(0.9) %
Moraine, Ohio	(116.1)	234.9	(49.4) %
New Brunswick, New Jersey	(45.0)	78.1	(57.7) %
Needmore (Dayton), Ohio	(144.5)	350.8	(41.2) %
Rochester, New York	(84.7)	679	(12.5) %
Saginaw, Michigan (E&C)	(65.8)	1,041.9	(6.3) %
Saginaw, Michigan (Steering)	(169.5)	1,528.7	(13.8) %
Sandusky, Ohio	(34.4)	360.8	(9.5) %
Vandalia, Ohio	(7.3)	93.9	(7.8) %
Warren, Ohio	(82.0)	972	(8.4) %
Wichita Falls, Texas	(28.8)	70.2	(41.0) %

II. The Causes of Delphi's Current Financial Condition

31. The continued deterioration in Delphi's U.S. operations are attributable to three principal factors. First, the GM labor agreements have caused an enormous increase in Delphi's labor and benefit costs, and its legacy retirement liabilities arising under those agreements, and have limited Delphi's ability to respond to reduced revenue by selling or closing facilities and laying off excess employees. Second, competitive conditions in the U.S. automotive market have greatly reduced GM's sales and profitability, resulting in reduced business and greater pricing pressure for Delphi. Finally, there has been a large increase in commodity prices in recent years, creating millions of dollars in additional costs that Delphi is unable to pass along to its customers. The effect of the GM labor agreements is addressed in the Declaration of Kevin Butler. In this declaration, I will address the other two factors.

32. At the time of the Spin-Off, Delphi was primarily a captive supplier servicing GM's assembly plants world-wide, and one of Delphi's most important business objectives in the Spin-Off was to become a global supplier to OEMs world-wide. To achieve this transition, Delphi needed to maintain its existing GM business in the U.S., expand its revenue from other OEMs within the U.S., and expand its international presence, supplying both GM's foreign operations and other OEMs world-wide.

33. Delphi was successful in the first two goals. Since 1999, it has more than doubled its non-GM revenue from $6.9 billion in 1999 to $14.1 billion in 2005, and has increased its international revenue from $11.1 billion in 2000 to $15.3 billion in 2005. It was not successful, however, in maintaining its existing GM business. Rather, Delphi's GM world-wide revenue fell from $22.3 billion in 1999 to $12.8 billion in 2005, a decrease of 43 percent, and its GM North American revenue – key to maintaining Delphi's U.S. operations – fell from approximately $18.3 billion in 1999 to approximately $10.6 billion in 2005, a decrease of approximately 42 percent. Exhibit E shows Delphi's consolidated GM and non-GM revenue from 1999 to 2005.

34. The reduction in GM revenue is attributable largely to a consistent decline in GM's own sales within the U.S. Although GM's share of U.S. light vehicle sales had slowly declined over several decades, in the late 1990's it still maintained its market-leading role. Indeed, the last decade were boom years for GM, fueled by record sales of highly profitable sports utility vehicles ("SUVs") and large trucks. With the exception of 1998, when the UAW waged a costly strike at GM's Flint, Michigan plant, GM earned between $4.5 billion and $6.9 billion every year between 1995 and 2000. In 1999, the first year of the Delphi Spin-Off, GM reported total net revenue of approximately $176.6 billion, with a net profit of $6.0 billion, and

its North American automotive operations earned a net income of $4.9 billion on revenues of $111.9 billion. Its share of the U.S. light vehicle market was 29.4 percent, with sales of nearly 5 million automobiles and light trucks.

35. By 2005, the situation had changed markedly. GM's share of the U.S. light vehicle market had fallen to 26.2 percent, and its sales had dropped to 4.5 million vehicles, a volume decline of 10 percent. GM reported a net loss of $10.6 billion for 2005, due primarily to losses at GM's North American automotive operations, which produced the vast majority of Delphi's GM revenues. Exhibit F charts GM's U.S. market share and volume from 1999 to 2005. Exhibit G shows GM's average net income/loss from 1995 to 2000 and 2001 to 2005. Note that GM figures for 1995 to 1999 reflect amounts obtained from GM's prior Form 10-K filings with the SEC. The 2000 to 2005 figures reflect amounts obtained from GM's 2004 Form 10-KA and 2005 Form 10-K filings with the SEC. GM's SEC filings are available to the public at http://www.gm.com/company/investor_information/sec.

36. The decline in GM's market share, revenue, and income since 1999 has undermined Delphi's business plan in four ways: (a) the loss of volume, and thus revenue, under Delphi's existing supply agreements with GM, (b) lower returns on the capital investments and other fixed costs incurred by Delphi under those supply agreements, (c) a reduction in new business from GM as GM has increased its use of lower cost, foreign suppliers, and (d) lower prices paid by GM under both existing and new supply agreements.

37. The typical supply agreements between an OEM and its suppliers are "requirements" contracts. These agreements set the duration of the agreement and the price of the part (including, typically, a provision for annual price reductions) but do not guarantee the

supplier a particular volume of business. Automakers order the parts as needed based on their own production, and a reduction in the number of vehicles sold by the OEM will directly reduce the number of parts purchased. Thus, the decline in GM's sales between 1999 and 2004 caused a direct reduction in the number of parts GM purchased from Delphi, and consequently, a direct reduction in Delphi's revenue.

38. The reduction in Delphi's revenue has been greater than the absolute decline in vehicles sold by GM, however, because the revenue per vehicle can vary substantially based on the type of vehicle – a measurement known as the vehicle "mix." For example, the most profitable GM vehicles from Delphi's perspective are large SUVs. In 2005, the Delphi "content per vehicle" for large SUVs – the dollar value of Delphi-produced parts in each GM vehicle – was $3,003 per vehicle whereas the Delphi content per vehicle for automobiles was only $2,168 per vehicle. As the result of significant recent increases in oil prices, GM's sales of large SUVs in the U.S. declined by 25 percent between 2003 and 2005, from 645,000 to 481,000 vehicles, exacerbating the overall decline in Delphi's GM revenues.

39. The harm to Delphi's operating results is much greater than the loss of revenue alone. When Delphi – or any other supplier – negotiates the price for which it will supply a particular part, it typically bases that price, among other factors, on the duration and anticipated volume under the supply agreement. Producing a new part can require a substantial initial investment by the supplier in engineering, equipment, tools, and training, and the supplier assumes that it will recover that cost over the life of the agreement. For example, approximately 85 percent of Delphi's total capital expenditures are incurred in the launch of new products. If

volumes fall short of those anticipated, the supplier will be unable to recover its full investment in the product.

40. For Delphi, the cost of an automaker's failure to meet volume estimates are compounded by the fact that labor is, in effect, a fixed cost under the GM-UAW labor agreements with Delphi. Delphi cannot layoff employees except for temporary periods in which the employees are entitled to Supplemental Unemployment Benefits and, following temporary layoff, excess employees are placed in a JOBS Bank where they receive full pay and benefits. Thus, if lower than expected volumes leave Delphi with more employees than needed to run its operations, Delphi must nonetheless pay those employees.

41. The net effect of GM's use of other suppliers is reflected in the measurement of Delphi's content per GM vehicle – that is, the dollar value of parts produced by Delphi in each GM vehicle. In 1999, the Delphi content in the average GM vehicle was $3,196. By 2005, that figure had fallen to $2,325, a 27 percent reduction over a six year period. Exhibit H depicts Delphi's content per GM vehicle, in dollars, from 1999 to 2005.

42. Under the typical supply agreement in the auto industry, the supplier agrees to accept price reductions during each year of the contract. The premise of these reductions, known as "price-downs," is that the supplier's costs decrease each year as it becomes more efficient at manufacturing the product. Although annual price-downs are a standard industry practice, GM has been particularly aggressive in seeking such price-downs – demanding larger than normal price-downs on new contracts, or conditioning new business on Delphi's willingness to provide greater than required price-downs under its existing supply contracts. GM has also been aggressive in pursuing model-to-model price reductions. For example, GM will demand that

new part models be sold at the same price as older models of the same part, allowing GM to receive more content for the same price.

43. As stated in the Declaration of Mark R. Weber, at the time of the Spin-Off, Delphi estimated that its total price-downs over the foreseeable future would average 1.6 percent of sales. Since 1999, Delphi's actual price-downs under its GM supply agreements have averaged 2.1 percent per year. By way of comparison, the average price-down required by Delphi's other OEM customers was only 1.4 percent per year during the same period. Thus, since the Spin-Off Delphi has been required to reduce its year-over-year prices on GM business by 50 percent more than the price reductions required by its other OEM customers.

III. Delphi Cannot Restructure Without Modifications To Its Labor Agreements

A. Without Labor Modifications, Delphi Would Suffer Unsustainable Losses Over the Next Five Years

44. On February 14, 2006, Delphi's management reviewed with its Board of Directors Delphi's progress in creating a five-year business plan to guide its restructuring efforts. In formulating its restructuring business plan, Delphi began by determining a "Steady State Scenario" that represents Delphi's best estimate of costs and revenue in each division based on (a) the assumption that Delphi's existing labor agreements continued in effect, (b) the assumption that Delphi retained all of its existing lines of business, and (c) Delphi's best estimate of business volumes, pricing, and material costs based on existing economic trends. The Steady State Scenario did not consider the potential effect of the UAW Special Hourly Attrition Program recently negotiated by Delphi. As explained below, however, the UAW Special Hourly Attrition

Program and any other potential future Hourly Attrition Programs reduce the losses under the Steady State Scenario but do not create a viable business plan.

45. In creating the Steady State Scenario, Delphi conducted an in-depth evaluation of each of its businesses, taking into account revenue and costs forecasts in light of changed economic conditions, including the chapter 11 filings. As explained below, Delphi concluded that most of the economic trends leading to Delphi's current financial crisis – GM's loss of market share, reduced GM revenues, pressure for price-downs, higher material costs, and the like – will continue for the foreseeable future.

46. In creating the Steady State Scenario, Delphi relied largely on estimates of GM market share and volumes provided by a vendor that specializes in making such estimates, but reduced the predicted volume for the years 2007-2010 by five percent to reflect GM's failure to meet prior volume projections. Thus, Delphi has assumed that GM's U.S. market share will fall from 25.2 percent in 2006 to 23.3 percent by 2010, and that Delphi's revenue from GM will fall from $12.8 billion in 2005 to $9.4 billion in 2010. Exhibit I depicts projected GM market share in the U.S. and Delphi's projected revenue from GM from 2006 to 2010. Exhibit J depicts Delphi's projected content per GM vehicle over the same period.

47. In creating the Steady State Scenario, Delphi also attempted to predict future changes in Delphi's pricing based on its booked business, and its historical experience with price downs under existing supply agreements. Based on these assumptions, Delphi projected that both future revenue, and "Delphi content" per GM vehicles will fall from $2,077 in 2006 to $1,763 in 2010.

48. Delphi also estimated future raw materials costs based on available market forecasts of future prices for such materials and the possibility that material suppliers may seek increased pricing. After analyzing this data, Delphi concluded that its costs for raw materials attributable to commodity price increases – which had already increased by $88 million during 2004 and $307 million during 2005 – would increase by an additional $308 million in 2006, but would not increase in the subsequent years. Based on these assumptions and the anticipated Delphi mix of products and reduced pricing, Delphi projected its material costs as a percentage of revenue for 2006 to 2010. Exhibit K depicts Delphi's material costs as a percentage of revenue for 2005 and projections for 2006 to 2010.

49. Under Delphi's Steady State Scenario, which was created before negotiations of the recent UAW Special Attrition Program, Delphi projects an operating loss of $8.1 billion, and a net loss of $12.9 billion over the five-year period from 2006-2010. As with its historical financial results, these losses are in large part attributable to Delphi's U.S. operations. Exhibit L depicts Delphi's revenue and operating income losses, from 2006 to 2010, under the Steady State Scenario.

50. The projected losses stem almost entirely from Delphi's U.S. operations. Under the Steady State Scenario, even with the deterioration in revenue and costs that Delphi has assumed for 2006 to 2010, Delphi's projections show that Delphi's international operations will be profitable during the period, earning approximately $3.4 billion in operating income over the five-year period. These same projections show that Delphi's North American operations, on the other hand, would lose approximately $11.5 billion in operating income during the same period.

As noted above, Delphi's North American operations perform better than the U.S. operations alone.

51. The Hourly Attrition Programs pending approval of this Court would "improve" Delphi's financial projections in the sense of reducing the projected loses but in no way produce a viable enterprise. The precise effect of the programs will depend on how many employees elect retirement and flow-back options, but even under the best case – that is, 100 percent of eligible employees accept one of the packages – Delphi would still lose approximately $6.1 billion. Thus, the Hourly Attrition Programs reduce the impact of Delphi's restructuring on its employees but it does not alleviate the need for the modifications that Delphi seeks in its labor agreements.

52. Under Delphi's Steady State Scenario, Delphi's hourly OPEB health expenses would average approximately $1.16 billion per year in the 2006-2010 period. I understand that, in making their projections regarding future health care OPEB expenses as discussed in greater detail in the Declaration of Keith Williams, Delphi's actuaries relied upon a declining health care trend, which results in a projection of $800 million per year. Delphi relies, however, upon health care inflation trend assumptions based on Delphi's recent historical experiences, which results in a projection averaging $1.16 billion per year. In addition, Delphi has projected the annual expense for hourly employees' and retirees' life insurance OPEB to average $40 million per year in the 2006-2010 period, bringing Delphi's projections of its average future overall hourly OPEB expenses to over $1.2 billion per year over that time period.

53. The difference between the two ranges of OPEB expense and cost projections are not material to the Motion because, even at the low end, the projected OPEB costs and expenses

are simply unaffordable and must be eliminated under Delphi's "Competitive Benchmark Scenario" described below.

B. Delphi Must Reduce Its Legacy Retirement Liabilities

54. Payment of Delphi's legacy retirement liabilities, according to Delphi's cash flow projections, would exceed all of the cash and available credit that Delphi anticipates having at the time. Even under the Competitive Benchmark Scenario, Delphi needs to identify a "pension solution" - a source of additional funding or a method to decrease its minimal contributions - to maintain the HRP.

55. The increases in Delphi's legacy retirement and unfunded pension obligations are discussed in the Williams Declaration. The significance of the increases in these liabilities is evidenced in a comparison of the size of the business that must support the liabilities. Delphi's retirement liabilities are attributable in large part to its U.S. operations. Delphi's U.S. revenue was $18.1 billion in 2000 compared to $11.5 billion in 2005. Thus, retirement liabilities, as stated in the Williams Declaration, have risen from 30 percent to 93 percent of Delphi's annual U.S. revenues. In terms of employees, Delphi's U.S.-based workforce has dropped from approximately 63,000 hourly employees in 1999 to approximately 33,100 hourly employees in 2005, while its combined underfunded OPEB and pension liabilities for hourly employees, as stated in the Williams Declaration, has risen from approximately $5.4 billion in 1999 to approximately $10.7 billion in 2005, including $.40 billion in unfunded life insurance liabilities in 1999 and $.40 billion unfunded insurance liabilities in 2005 (each year excluding overseas liabilities). Thus, Delphi's liability per active employee has increased by 289 percent between 1999 and 2005.

56. In addition to the pension liabilities described in the Declaration of Keith Williams Declaration, as of December 31, 2005, Delphi's estimated liability under the Supplemental Executive Retirement Plan ("SERP") was $0.3 billion.

IV. Delphi's Restructuring Plans

57. In light of the plainly untenable projections under the Steady State Scenario, Delphi prepared and served on its Unions proposals under Sections 1113 and 1114 of the Bankruptcy Code for modifications to the labor agreements subject to the Motion and modification of retiree benefits. Based on these proposals, Delphi created two different financial scenarios – the Competitive Benchmark Scenario based on Delphi's proposals of November 2005, and the GM Consensual Scenario based on Delphi's proposals of March 2006.

58. I have described below Delphi's financial projections based on the two scenarios. I have also described the portfolio realignment that Delphi must complete in order to become a viable competitor under either labor scenario.

A. The Competitive Benchmark Scenario

59. The "Competitive Benchmark Scenario" represents Delphi financial projections following implementation of (a) Delphi's Competitive Benchmark Proposals to the Unions pursuant to Sections 1113 and 1114, (b) other planned efforts to reduce costs including an effort to reduce SG&A costs by $450 million per year by 2009, (c) the sale, wind-down, or consolidation of a certain number of its product lines and associated manufacturing sites, and (d) Delphi's best estimate of GM revenue and pricing if Delphi implemented the other proposed changes. In creating the Competitive Benchmark Scenario, Delphi modified its Steady State projections in four principal respects as described below.

60. Delphi's proposed modifications to the wage and benefit packages under its existing labor agreements are designed to create an hourly labor cost of approximately $22 per hour (excluding legacy and past obligation fixed costs) which, Delphi believes, is at the upper end of the range of prevailing labor costs among independent parts suppliers. Implementation of these wage and benefit packages, however, is not a panacea for Delphi's financial problems. Rather, Delphi has projected that these wage and benefit changes – including modification of Delphi's obligation to provide retiree health care and life insurance for hourly retirees – would provide it with approximately $9.2 billion in cash savings through 2010. Under the assumptions in the Steady State Scenario and adjusted for the revenue, pricing assumptions, and labor modifications expected to impact the business in the Competitive Benchmark Scenario, Delphi would still have a cash flow shortfall of $3.4 billion between 2006 and 2010.

61. The second and third principal elements of the Competitive Benchmark Scenario relate to Delphi's anticipated volume of business and pricing from non-GM and GM customers.

First, Delphi anticipates that it will lose approximately 50 percent of the unbooked non-GM business for the non-continuing product lines it anticipated in the Steady State Scenario as customers, other than GM, would re-source Delphi contracts to other suppliers for some of the unbooked business on Delphi's non-continuing product lines. Second, Delphi assumed that future price reductions for non-GM customers would be required in 2008, 2009, and 2010 once a transformation was completed. Finally, Delphi anticipates that in the Competitive Benchmark Scenario, GM would no longer agree to pay a premium in the small percentage of its contracts with Delphi in which GM has historically provided Delphi with premium pricing, pricing which considers Delphi's above-market labor costs. Although it assumed that GM would continue its trend of providing a lower level of business in the future, Delphi did assume that planned revenue for both booked and unbooked business included in its Steady State Scenario would continue.

62. To create a viable enterprise, Delphi must sell or close those operations that cannot be made profitable, or which redirect scarce capital, engineering, and other resources away from making Delphi's core businesses viable. Assuming that Delphi were to implement all of the portfolio changes, including manufacturing site closures and consolidations identified in the restructuring plan and discussed below, and that Delphi were able to implement its proposed labor modifications, Delphi would still have a cash flow shortage of approximately $4.6 billion between 2006-2010 because of its pension funding obligations under the HRP, which account for approximately $3.1 billion of the $4.6 billion shortage.

63. Delphi's current financial projections show that it will not have the cash to make its required pension contributions in 2007-2008, and that the cumulative minimum funding

obligation between 2007 and 2010 would exhaust all of Delphi's available cash during that period. Despite these projections, Delphi is committed to pursuing all viable alternatives that might provide a "pension solution" that would allow it to maintain the frozen HRP. Exhibit N depicts Delphi's cash flow projections, from 2006 to 2010, under the Competitive Benchmark Scenario with and without pension payments.

64. Under the Competitive Benchmark Scenario, Delphi projects approximately $784 million in operating losses in 2006 and 2007, and positive operating income beginning in 2008. Exhibit M depicts Delphi's projected revenue and operating income losses from 2006 to 2010 under the Competitive Benchmark Scenario. While the Competitive Benchmark Scenario substantially improves Delphi's operating projections over the five year period from 2006-2010 it does not produce a business plan that is viable without further cost reduction.

B. The GM Consensual Proposal Scenario

65. The GM Consensual Scenario represents Delphi's financial projections following (a) obtaining modified labor agreements consistent with Delphi's GM Consensual Proposals, (b) negotiating a mutually agreeable level of financial support from GM, or, if that is not possible, dealing with the thousands of GM supply contracts under which Delphi consistently loses money, and (c) a pension solution.

66. Based on the financial assumptions and projections in the Competitive Benchmark Scenario, Delphi generated the GM Consensual Scenario and has adopted a restructuring plan with five key elements that Delphi believes can form the basis for a successful reorganization.

- Modifying its labor agreements to create a competitive arena in which to conduct business going forward;
- Concluding negotiations with GM to finalize GM's financial support for the legacy costs Delphi currently carries and to ascertain GM's business commitment to Delphi going forward;
- Streamlining its product portfolio to capitalize on its world class technology and market strengths, and making the necessary manufacturing alignment with Delphi's new focus;
- Transforming its salaried workforce to ensure that Delphi's organizational and cost structure is competitive and aligned with its product portfolio and manufacturing footprint; and
- Devising a workable solution to its pension funding obligations by reducing its contributions to manageable levels.

67. Modified Labor Agreements. The first element of Delphi's business plan is modification of its current collective bargaining agreements, either through consensual resolution or by authority granted by this Court under Section 1113. As noted above, Delphi cannot restructure successfully if it remains strapped with its current collective bargaining agreements. Among the most onerous provisions of Delphi's labor agreements are the significant prohibitions on Delphi's operations that prevent it from responding to market forces by exercising normal management discretion to sell or close unprofitable or non-core operations, and to determine the numbers of employees it needs. Indeed, one of the principal reasons for Delphi's current financial situation is that it could not respond to dramatically reduced GM volumes, leaving it with unnecessary and unprofitable facilities, and employees paid full wages and benefits even though there is no work available.

68. GM Financial Support. The second element that Delphi is pursuing as part of its restructuring efforts is to obtain financial support from GM, its former parent and largest

customer. Delphi informed the Unions that several elements of the GM Consensual Proposals are contingent upon GM financial support sufficient to fund those elements. For a number of reasons, GM has a significant economic interest in the success of Delphi's restructuring. First, Delphi's operations are necessary for GM to continue operations without interruption. Second, GM's labor agreements with the UAW, IUE-CWA, and USW include benefit guarantees and, of the UAW, flow-back provisions, which could create substantial liability for GM – and, GM recently took a $3.6 billion after-tax charge in anticipation of such obligations. Third, GM must negotiate new agreements with those unions next year and financial support to Delphi could become a factor in those negotiations.

69. Because the cost of the additional terms would be borne by GM, the financial effect of the different proposals in the GM Consensual Proposals for Delphi is the same as the Competitive Benchmark Scenario.

70. Finally, if Delphi is unable to obtain financial support from GM consensually, it will be forced to seek rejection of thousands of GM supply contracts under which it loses millions of dollars each month. As explained in its motion under 11 U.S.C. § 365 for authority to reject certain unexpired and unprofitable executory contracts with GM (the "GM Loss Contract Rejection Motion No. 1"), filed concurrently with this Motion, Delphi has been analyzing its supply contracts with GM to identify unprofitable contracts that merit rejection. Delphi has also been reviewing the terms of expiring GM supply contracts with a view toward negotiating new terms with GM that will correct the imbalance in the previous supply arrangements with respect to both price and non-price terms. Delphi has attempted to negotiate a macro-level financial solution with GM that would neutralize the losses stemming from GM loss

contracts. To date, however, GM has only agreed not to insist on certain additional price-downs but has so far refused to compensate Delphi equitably for the financial burden imposed under the onerous terms of existing loss contracts. As a result, Delphi has filed the GM Loss Contract Rejection Motion No. 1, the first of several rejection motions it expects to file that seek to unburden Delphi from the terms of unprofitable supply contracts analyzed to date.

C. The Product Lines That Delphi Intends To Sell Or Wind-Down

71. In creating its current portfolio plan, Delphi first looked generally to the overall market attractiveness of each of its divisions and product lines, including whether a manufacturing site or its technology is contemporary or outdated. Delphi next considered each line of business on the following measures: (a) overall revenue and profitability, (b) market share, and (c) percentage of revenue attributable to GM business.

72. In considering market share, Delphi looked at the absolute share of the market possessed by the Delphi product as well as the share position of the Delphi product relative to all participants in the market (first, second, third, etc.). This examination allowed Delphi to determine the extent to which Delphi possessed a leadership position within the product segment. Delphi next examined the extent to which revenues were attributable to GM business. Businesses that had demonstrated growth with non-GM customers provided concrete evidence of competitiveness and market success. Alternatively, those businesses that had not diversified beyond GM since the Spin-Off provided evidence of some weakness in Delphi's competitive position.

73. As a result of this process, Delphi identified certain core businesses in which it can leverage its significant, market-leading technical and engineering strength to develop new

products. These core businesses also have the greatest synergies to allow for Delphi's expansion into new markets, including commercial vehicles, consumer electronics, medical devices, marine products, computers and peripherals, and military and homeland security products. Similarly, these core businesses are least dependent upon business from GM, which in light of GM's financial condition, results in reduced financial risk for Delphi.

74. These core businesses consist of eight principal product lines:

- Entertainment and Communication Systems (Audio, Navigation, and Telematics),
- Powertrain (Diesel and Gas Engine Management Systems),
- Safety Systems (Occupant Protection and Safety Electronics),
- Electrical and Electronic Architecture (Wiring, Connections, Electrical Centers),
- Controls & Security (Body Security, Mechatronics, Power Products and Displays),
- Thermal Systems (Climate Control and Powertrain Cooling),
- Consumer Electronics, and
- Independent Aftermarket.

75. Within the United States, these core products are manufactured primarily at Delphi's facilities in Brookhaven, Mississippi; Clinton, Mississippi; Grand Rapids, Michigan; Kokomo, Indiana; Lockport, New York; Rochester, New York; Vandalia, Ohio; and Warren, Ohio.

76. At the same time, Delphi identified a number of product lines that were not economically viable, and which Delphi believed should be sold or wound down. Many of these non-core product lines were identified at the time of the Spin-Off as "sell or exit" candidates, and

were later placed into the AHG discussion for this purpose. Even if some of these businesses could be made profitable through lower labor costs, Delphi cannot afford, in its current financial condition, to commit its scarce capital and engineering resources to all of its existing product lines.

77. Based on this analysis, Delphi believes that to restructure successfully, it must divest or exit the following product lines: steering, halfshafts, brakes, brake and chassis modules, ride dynamics, wheel bearings, catalysts, batteries, door module and latches, instrument panels, cockpits, and miscellaneous electronics (e.g., airmeter electronics, ignition electronics, chassis electronic modules, and certain low content instrument clusters). Accordingly, the U.S. Union-represented manufacturing sites that would be sold, consolidated, or closed are:

Manufacturing Site Location	
Alabama:	Athens, Cottondale, and Gadsden
Georgia:	Fitzgerald
Indiana:	Anderson
Michigan:	Adrian, Coopersville, Flint, Saginaw (E&C), and Saginaw (Steering)
Mississippi:	Laurel
New Jersey:	New Brunswick
Ohio:	Columbus, Home Avenue (Dayton), Kettering, Moraine, Needmore Road (Dayton), and Sandusky
Texas:	Wichita Falls
Wisconsin:	Milwaukee (E&C) and Milwaukee (E&S)

78. Several of the above sites are expected to be exited as a result of the sale or divestiture of non-continuing business. Some sites identified above (Adrian, Anderson, Columbus, Coopersville, Flint, Laurel, Milwaukee (E&C), Milwaukee (E&S), Moraine, and

Wichita Falls) presently produce certain products that will continue but are expected to be consolidated into other plants.

79. In addition to its U.S. manufacturing sites discussed here, as part of its portfolio realignment Delphi intends to divest or close approximately 24 non-U.S. operations which are not subject to the same labor contract restrictions on sale or closure as Delphi's U.S. manufacturing sites.

80. Salaried Workforce. While Delphi's salaried workforce is not subject to the Motion, Delphi's efforts to transform its salaried workforce are discussed briefly herein and in the Weber Declaration.

81. Finding A Pension Solution. As noted above, even if Delphi maintains but freezes the existing pension plan for hourly employees under the Competitive Benchmark Scenario, Delphi would be unable to make those payments based upon its current cash projections. Nonetheless, Delphi is committed to pursuing all possible options to maintain the frozen HRP, if possible. The GM Consensual Scenario assumes that Delphi is able to achieve a legislative solution stretching out its pension contributions beyond currently allowed levels. Under the GM Consensual Scenario, Delphi has modeled a method under which it could afford to maintain the frozen hourly employee pension plan, the frozen HRP, by spreading the contributions over a six year period.

D. The Downside Risks Under Delphi's Projections

82. While the various scenarios represent Delphi's best estimate of its revenue and costs, there are potential downside risks that could undermine its projections.

83. Finding a Pension Solution. As explained above, Delphi's current business plan assumes that Delphi will maintain, but freeze, its existing pension plan for hourly employees even though the minimum funding requirements under the HRP would require a cash contribution to the plan of $2.0 billion in 2007 in order to emerge from bankruptcy. Delphi will be unable to make that payment based upon its current cash projections. The need to find a "pension solution," by itself, creates a material risk in Delphi's ability to achieve the results in its financial projections.

84. Unbooked Business. Delphi's revenue projections for 2006 through 2008 consist largely of business that has already been booked; that is, Delphi has a supply contract with an OEM to produce a particular part during that period. However, only 67 percent of Delphi's projected business in 2009 under its Steady State Scenario and only 57 percent of its projected business in 2010 has been booked. Whenever a supplier projects revenue that has not yet been booked, there is a material risk that the revenue may not materialize. Any short-falls in actual booked business could have a substantial negative effect on Delphi's total revenue.

85. Volumes And Product Mix On Booked Business. Even if future business has already been booked, Delphi, like other suppliers, bears the risk that the volume of parts actually ordered by the OEM will be less than projected, or that it will obtain a different mix of parts than it has forecast, because the OEM will sell fewer or different types of vehicles than currently forecast. In addition, it is particularly difficult to predict the volume of GM's business over the next five years because of the uncertainties surrounding its financial condition. For example, in developing its Steady State Scenario, Delphi's original projections were that its GM revenue for 2006 through 2010 would be approximately $2 billion lower than assumed in the current

projections. Based on its business judgment, Delphi ultimately decided to use the higher projections, but a shortfall in GM volumes in the 2006 to 2010 period could reduce Delphi's total revenue by approximately $2 billion during that period.

86. Commodity Costs. As explained above, there were large increases in Delphi's cost for raw materials between 2003 and 2005, and those increases had a substantial effect on Delphi's total operating income. In its Steady State Scenario, Delphi has assumed that these costs will increase again in 2006 but will stabilize in 2007-2010. If Delphi's projections are incorrect and commodity prices continue to increase, Delphi's margins would be adversely affected.

87. Economic Conditions. In its Steady State Scenario, Delphi has assumed that the currently favorable general economic trends will continue during the five-year period of the business plan. Given that the last recession in the U.S. occurred in 1991, this amounts to a forecast that the current economic expansion will last at least nineteen years. While it is impossible to predict whether a recession will occur before the end of the current decade, there is clearly a cyclical risk that one could occur.

88. External Events. Since the Spin-Off of Delphi in 1999, the U.S. auto industry has faced a number of challenges caused by external events that could not have been predicted, including the terrorist attacks of September 11, the conflicts in Afghanistan and Iraq, the significant recent increases in oil prices, and the effects of Hurricane Katrina and other natural disasters. Although Delphi cannot predict whether external events might undermine its financial projections, the risk of such events is clearly present.

89. Labor Unrest. Strikes or other types of job actions have been a risk factor in the automobile industry for decades, causing enormous financial harm when they occur. For example, a 1998 strike at one GM facility in Flint, Michigan cost GM several billion dollars. Given the low margin for error in Delphi's financial projections, the possibility and almost certain financial harm from any labor action is plainly a material risk.

V. Responses To Union Advisor Information Requests

90. Since seeking reorganization relief, Delphi has received numerous information requests from the Union's financial advisors. Whenever Delphi has received an information request from one of the Union's financial advisors, Delphi's finance personnel has gathered the requested information and provided to the Union's financial advisors information responsive to the request as soon as possible.

VI. The Effect of Delphi's Bankruptcy On Other Constituencies

91. There are many significant parties and classes of creditors that will be bearing their share of the Debtors' cost-cutting measures.

A. Equity Holders

92. Delphi's equity holders will bear their share of the Debtors' restructuring burden. For the years 2001-2004, the market value of Delphi's stock ranged between approximately $3.6 and $9.8 billion. At the close of business on October 7, 2005, Delphi's common stock was trading at $1.12 and the stock's market value was approximately $629.2 million, assuming no change in the shares outstanding from September 30, 2005 to October 7, 2005. Moreover, as of September 30, 2005, Delphi's stockholders' deficit was approximately negative $5.3 billion. According to the Debtors' monthly operating report for the month ended January 31, 2006, Delphi's stockholders' deficit grew to almost $6.4 billion.

93. In response to a request to the Office of the United States Trustee (the "U.S. Trustee") by Appaloosa Management L.P. for the appointment of an equity committee in these chapter 11 cases, the Debtors stated in a December 19, 2005 letter to the U.S. Trustee that it is "highly unlikely" that common equityholders will receive any value in the chapter 11 cases because the Debtors believe that Delphi is "hopelessly insolvent." Notwithstanding the inherent value that the Debtors believe is associated with Delphi's global business operations outside the United States, the Debtors informed the U.S. Trustee that they do not believe that such value can overcome the direct and indirect claims against Delphi on account of the non-competitive legacy liabilities and burdensome restrictions under current U.S. labor agreements which are direct claims against the U.S. parent holding company and are superior in priority to the interests of

that entity's common shareholders. Additionally, as of December 16, 2005, all four tranches of Delphi's publicly-traded debt securities were trading at an implied recovery of between 49.8 percent and 51.0 percent of face value and Delphi's publicly-traded trust preferred securities were trading at an implied recovery of 23.0 percent of face value. Applying the absolute priority rule, it is extremely unlikely that the equityholders will recover any portion of their claims against Delphi. On March 22, 2006, the Court ordered the U.S. Trustee to appoint an equity committee in these cases. Although the Court was skeptical that there will be any meaningful distribution to the holders of Delphi's equity in these cases, it granted Appaloosa Management's motion, in part, because the Court held that the movant did not need to demonstrate a substantial likelihood of a meaningful distribution to interestholders as a condition to the formation of an equity committee.

94. Consistent with Delphi's expectations that it is hopelessly insolvent, on January 20, 2006, the Debtors filed their Schedules of Assets and Liabilities (the "Schedules") and Statements of Financial Affairs (the "Statements"). The Schedules and Statements were prepared based on the Debtors' unaudited books and records as of the Petition Date. The Schedules and Statements do not purport to represent financial statements prepared in accordance with GAAP, but are intended to provide a snapshot of the financial condition of the Debtors as of the relevant petition date. When examined in the aggregate, the Debtors' Schedules reveal assets of approximately $16.4 billion and liabilities of $24.8 billion as of the Petition Date. In other words, on the Petition Date, the Debtors' liabilities exceeded their assets by more than $8.0 billion. In all likelihood, because of the significant claims owed to various groups of creditors, shareholders will not receive any property on account of their existing equity interests under a restructuring plan.

B. GM

95. GM, Delphi's former parent and largest customer, will also equitably share in enabling a successful reorganization. The Debtors are filing their GM Contract Rejection Motion No. 1 concurrently with this Motion. Through the GM Contract Rejection Motion No. 1, the Debtors are seeking the Court's authority to reject burdensome executory contracts pursuant to which the Debtors are supplying GM parts at a significant loss. Relief on that Motion will permit the Debtors to renegotiate reasonable prices that will permit the Debtors to reorganize successfully. Moreover, in its March 28, 2006, Form 10-K, GM estimated its pre-tax liability at \$5.5 billion to \$12 billion. GM also stated in a January 26, 2006, Form 8-K that the GM Benefit Guarantee could be triggered as a result of reductions in Delphi's hourly OPEB or pension liabilities in bankruptcy, resulting in a financial impact on GM of \$3.6 billion after-tax.

C. Bondholders

96. Delphi has approximately \$2.0 billion, plus unpaid interest, in senior unsecured securities outstanding as of the Petition Date. These senior unsecured securities were issued in four tranches: (a) \$500 million in securities bearing interest at 6.55 percent and maturing on June 15, 2006, (b) \$500 million in securities bearing interest at 6.50 percent and maturing on May 1, 2009, (c) \$500 million in securities bearing interest at 6.50 percent and maturing on August 15, 2013, and (d) \$500 million of securities bearing interest at 7.125 percent and maturing on May 1, 2029. Because of the substantial liabilities faced by the Debtors, in all likelihood the holders of these securities will receive only a percentage of their face value under a restructuring plan. Delphi also issued (i) 8.25 percent junior subordinated notes due 2033 and (ii) adjustable rate junior subordinated notes due 2033 (collectively, the "Subordinated Notes"). With an aggregate

principal amount of approximately $412 million, the beneficiaries of the Subordinated Notes represent, as a class, one of the seven largest unsecured claims against the Debtors.

97. The Subordinated Notes are contractually subordinate to the $2.0 billion in senior unsecured securities discussed above, as well as any Delphi trade debt. Additionally, the Subordinated Notes were not guaranteed by any operating Debtors. Therefore, the Subordinated Notes are structurally subordinate to the claims of trade creditors, and are only one step above equityholders based on the absolute priority rule. Since the Debtors are hopelessly insolvent, as discussed above, the holders of the Subordinated Notes will receive, at best, only a minimal percentage of their face value under a restructuring plan. As stated above, the market's interpretation of the publicly-disclosed information about Delphi is that the holders of Delphi's debt securities will receive between one-quarter and one-half of their face value under a restructuring plan.

D. Suppliers

98. The Debtors' suppliers, whose continued support is crucial to the Debtors' successful restructuring, are similarly bearing a significant share of the restructuring burden. The Debtors' outstanding payables as of the Petition Date to their thousands of suppliers were in excess of $1.0 billion. The Debtors' inability to make payments on account of those obligations has exacerbated the difficult financial situation faced by many of those suppliers who, like the Debtors, are dependent upon the domestic automotive industry and are therefore facing many of the same business issues as are the Debtors. As such, many of these suppliers are among the Debtors' creditors that are least able to bear the burden of the Debtors' restructuring.

99. Nevertheless, such suppliers have made concessions and continue to support the Debtors' restructuring goals. For example, as disclosed in the Debtors' Supplier Agreement Assumption Procedures Motion, the Debtors had more than 11,000 supply contracts which were due to expire by December 31, 2005. Although the Debtors' suppliers had no obligation to continue to supply goods to the Debtors, the Debtors were able to reach consensual extensions for more than 99 percent of all expiring contracts for which the Debtors' business plans necessitated an extension.

100. Furthermore, those suppliers whose contracts have been assumed pursuant to the Supplier Agreement Assumption Procedures Order have generally accepted significantly less than the face amount of their outstanding prepetition payables as a cure of all existing prepetition defaults under the assumed contracts and waived their right to assert administrative claims for cure of the additional prepetition obligations to which they would otherwise be entitled under section 365(b)(1) of the Bankruptcy Code. Therefore, the Debtors' suppliers have already borne a significant portion of the burden of the Debtors' restructuring and, given the dire financial straits in which many such suppliers find themselves, cannot reasonably be expected to bear additional burdens without jeopardizing the Debtors' supply chain and the prospects for their successful restructuring.

E. <u>Other Unsecured Creditors</u>

101. Due to the magnitude of the scheduled liabilities of the Debtors, nonpriority claims will likely receive less than 100 cents on the dollar. Members of the unsecured creditors group include, among others, the Debtors' non-supplier trade creditors, upon whom the Debtors continue to rely to produce their goods and service their customers. Moreover, these groups

have continued to provide goods and services to the Debtors during the postpetition period despite the hardship that the Debtors' filing caused on their own financial situations.

102. Delphi's unsecured creditors, whose claims exceed $2.3 billion, are likely to be impaired from recovering the full value of their claims.

I declare under penalty of perjury, and pursuant to 28 U.S.C. § 1746, that the foregoing is true and correct to the best of my knowledge, information, and belief.

Executed this 31st day of March, 2006

/s/ John D. Sheehan________
JOHN D. SHEEHAN